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HARVEY WOODS LIMITED ANNUAL REPORT 1976



 **JOCKEY®**

EARNINGS Your Directors submit herewith the Annual Report of the Consolidated Operations of your Company for the year ended December 31, 1976. Income before extraordinary item of \$675,000 for the year 1976 compares with \$796,000 for 1975, after provision for depreciation of \$260,000 in 1976 and \$236,000 in 1975. Your attention is drawn to Note # 5 to the Consolidated Financial Statements as to the extraordinary item and income taxes payable.

1976 OPERATIONS Although sales for the year were 11% higher than a year ago, 1976 was not without its problems. An unforeseeable demand for some styles outstripped our ability to supply and a shortage of suitable labour in Woodstock curtailed, to some extent, our production capabilities. Competitive pressures and the presence of the Anti-Inflation Board influenced marketing decisions with respect to the timing of price changes, consequently, some selling prices did not keep pace with commodity and other costs and definitely influenced the Company's performance. Income per share before extraordinary item is 25¢ (1975 - 30¢) and income per share after extraordinary item amounted to 25¢ in 1976 (1975 - 40¢) as allowances for losses carried forward for income tax purposes have been exhausted.

1977 PROSPECTS Action taken by the Federal Government on November 29, 1976 to implement a programme of global restraint on clothing imports in Canada, together with subsequent action in this regard, provides encouragement for greater stability for textiles in Canada. Your Company participated in representation to the Textile and Clothing Board in co-operation with the Canadian Textiles Institute, following which a separate private hearing with the Board was attended to deal directly with your Company's concern. It is to be hoped that the Textile and Clothing Board's findings will result in a continuation of the restraint programme, with specific reference to imports from low cost countries.

The distribution of Harvey Woods and Jockey Brand products will continue to be supported by national advertising in major markets throughout Canada. Production capacity has been augmented by the opening of a satellite stitch operation in Hamilton, a location with an abundance of suitable labour.

Bookings to date continue to outpace the high of a year ago, but of significance is the fact shipments for the same period are substantially ahead. Our much stronger inventory position

has improved our ability to meet the demands of the marketplace. Price increases have been announced to the trade and are in compliance with Anti-Inflation Board regulations.

Our Capital Expenditure budget for 1977 again is \$500,000, and final approval of expenditures will essentially be based on production needs to further improve efficiency of operation and control costs.

LONG TERM DEBT Details of the long term debt are outlined in the notes to the Consolidated Financial Statements.

WORKING CAPITAL Working Capital increased \$297,000 in the year and at December 31, 1976 stood at \$4,087,000. Details of the source and application of funds are shown in the Consolidated Statement of Changes in Financial Position.

SUBSIDIARIES THOMSON RESEARCH ASSOCIATES LIMITED During the year this Subsidiary expanded its materials testing facilities and added agency chemicals from Italy, the United Kingdom and the U.S.A. to its line of products to complement its range of Steri-Septic germicides. These additions will improve the prospects for 1977.

KROY UNSHRINKABLE WOOLS LIMITED The new Kroy processing machine has been approved by the International Wool Secretariat, and this acceptance is expected to facilitate worldwide licensing.

The Federal Government through the National Research Council and the Department of Industry, Trade and Commerce continues to assist the Subsidiary Companies with research and development grants.

GENERAL We would like to express our appreciation to all Harvey Woods and Subsidiary Companies' employees for their support and co-operation. It is only through them and their individual contribution that the Company's continued progress can be realized.

To the Shareholders of Harvey Woods Limited

We have examined the consolidated balance sheet of Harvey Woods Limited as at December 31, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon & Co.
Chartered Accountants

London, Canada
February 17, 1977

On Behalf of the Board of Directors
J. D. Woods, Chairman.
R. W. Meeke, President.

March 11, 1977
Toronto, Ontario

HARVEY WOODS LIMITED
(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET (as at December 31)

(in thousands of dollars)

ASSETS	1976	1975
Current:		
Cash	\$ 13	\$ 3
Accounts receivable	2,564	2,662
Inventories (note 2)	6,628	4,737
Prepaid expenses	257	79
Total current assets	9,462	7,481
Fixed:		
Land	40	40
Buildings	1,255	1,142
Equipment	3,743	3,499
	5,038	4,681
Less accumulated depreciation	3,499	3,381
Total fixed assets	1,539	1,300
Total	\$11,001	\$8,781

On behalf of the Board

Roland W. Meeke, Director — John A. Young, Director

(See accompanying notes)

(in thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	1976	1975
Current:		
Due to bankers - demand loan (note 3)	\$3,064	\$1,273
Accounts payable and accrued charges	1,897	1,847
Taxes payable	220	382
Portion of long term debt due within one year	194	189
Total current liabilities	5,375	3,691
Long term debt (note 4)	993	1,186
Deferred taxes	59	1
Minority shareholders' interest	9	13
Shareholders' equity:		
Capital		
Authorized:		
3,500,000 common shares without par value		
Issued and fully paid:		
2,677,072 common	1,938	1,938
Retained earnings (statement 2)	2,627	1,952
	4,565	3,890
	\$11,001	\$8,781

(in thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY

1976

1975

Current:

Due to bankers - demand loan (note 3)

\$3,064

\$1,273

Accounts payable and accrued charges

1,897

1,847

Taxes payable

220

382

Portion of long term debt due within one year

194

189

Total current liabilities

5,375

3,691

Long term debt (note 4)

993

1,186

Deferred taxes

59

1

Minority shareholders' interest

9

13

Shareholders' equity:

Capital

Authorized:

3,500,000 common shares without par value

Issued and fully paid:

2,677,072 common

1,938

1,938

Retained earnings (statement 2)

2,627

1,952

4,565

3,890

\$11,001

\$8,781

CONSOLIDATED STATEMENT OF INCOME (year ended December 31)

(in thousands of dollars)

	1976	1975
Sales	\$17,291	\$15,563
Expenses:		
Cost of sales	11,848	10,166
Marketing, general administration and shipping expenses	3,648	3,389
Depreciation	260	236
Interest - Long term debt	130	141
Other	284	264
	16,170	14,196
Operating income	1,121	1,367
Minority interest in income of subsidiary company	1	4
Income before income taxes and extraordinary item	1,120	1,363
Income taxes (note 5) - current	387	570
- deferred	58	(3)
	445	567
Income before extraordinary item	675	796
Extraordinary item:		
Reduction in income taxes, resulting from application of prior years' losses		269
Net income	\$ 675	\$ 1,065
Income per share before extraordinary item	\$.25	\$.30
Income per share after extraordinary item	\$.25	\$.40

(See accompanying notes)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (year ended December 31)

(in thousands of dollars)

	1976	1975
Balance, beginning of year	\$1,952	\$ 887
Net income	675	1,065
Balance, end of year	\$2,627	\$1,952

(See accompanying notes)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION (year ended December 31) (in thousands of dollars)

	1976	1975
Source of working capital:		
Operations —		
Net income	\$ 675	\$ 796
Depreciation	260	236
Minority interest in earnings of subsidiary	1	4
Increase (decrease) in deferred income taxes	58	(3)
	994	1,033
Extraordinary item		269
Sale of fixed assets	38	6
	1,032	1,308
Application of working capital:		
Reduction in long term debt	193	190
Purchase of fixed assets	537	290
Dividends paid to minority shareholders of subsidiary	5	5
	735	485
Increase in working capital	297	823
Working capital, beginning of year	3,790	2,967
Working capital, end of year	\$4,087	\$3,790

(See accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**1. Summary of significant accounting policies****(a) Principles of consolidation**

The consolidated financial statements include the accounts of the company and its subsidiaries, Thomson Research Associates Limited, Kroy Unshrinkable Wools Limited, Kroy Inc. and York Knitting Mills (1966) Limited. All material intercompany accounts and transactions have been eliminated.

(b) Inventories

Inventories are stated at the lower of cost and market. Cost is computed using currently adjusted standards which approximate actual costs on a first-in, first-out basis. Market value is defined as follows:

Raw materials — replacement cost

Work in process and finished goods — net realizable value

(c) Fixed assets

Fixed assets are stated at historical cost. Depreciation is provided on a diminishing balance basis at rates which amortize the cost over their estimated useful life, as follows:

Buildings — 5%

Equipment — 20%

(d) Deferred income taxes

Income taxes charged to income represent both the portion currently payable and the portion which is deferred due to claiming capital cost allowance for tax purposes in amounts which exceed depreciation recorded in the accounts. The resultant deferrals of income tax are reflected on the balance sheet as deferred income taxes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2. Inventories

	1976	1975
Finished goods	\$3,933,000	\$2,484,000
Work in process	1,579,000	1,193,000
Raw material and supplies	1,116,000	1,060,000
	\$6,628,000	\$4,737,000

3. Bank indebtedness

As at December 31, 1976, bank indebtedness amounted to \$3,064,000 by way of a demand loan and \$735,925 in term loans as described in note 4. The company has pledged its accounts receivable and inventories as security and has also issued demand debentures totalling \$4,500,000 secured by fixed and floating charges ranking subsequent to the security given under mortgages described in note 4.

Under the terms of the security, the company cannot pay dividends without the prior approval of the debenture holder. In any event, any such dividend would be restricted under the Anti-Inflation Act to an amount not exceeding 10¢ per share for the year ending October 13, 1977.

4. Long term debt

Bank term loans —	1976	1975
(i) bearing interest at a rate of 1½% above the bank's prime rate, repayable in equal monthly principal instalments of \$7,060, to April, 1982, and insured as to the repayment to the extent of 90% by the General Adjustment Assistance Board (GAAB).	\$451,840	\$536,560
(ii) bearing interest at a rate of 1½% above the bank's prime rate, repayable in equal monthly instalments of \$1,605, to May, 1983, insured by GAAB as to repayment to the extent of 90%, and secured by a chattel mortgage on certain equipment.	123,585	142,845
(iii) bearing interest at 10%, repayable after the other term loans have been fully repaid.	160,500	160,500
	735,925	839,905
Other		
(i) 8½% first mortgage bonds, issued to the company's bankers, secured by a first mortgage on the company's lands, buildings, machinery and equipment and a first floating charge on its other assets, repayable by monthly instalments of \$2,900 plus interest.	157,500	192,300
(ii) 8½% second mortgage, to the Ontario Development Corporation, secured by a second mortgage on the company's lands, buildings, machinery and equipment and a second floating charge on its other assets, repayable by monthly blended payments of principal and interest of approximately \$6,400, maturing July, 1981.	293,040	343,427
	1,186,465	1,375,632
Less portion due within one year included in current liabilities	193,541	189,167
	\$ 992,924	\$1,186,465

Principal repayments in the years 1977 to 1981 are \$193,541, \$198,294, \$203,460, \$209,075 and \$166,070 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

5. Income taxes

Taxes on income for the year ended December 31, 1975 in the amount of \$567,000 were reduced by \$269,000 by the application of losses incurred in previous years.

6. Remuneration of directors and senior officers

Aggregate direct remuneration paid by the companies during 1976 to directors and senior officers as defined by Section 125 of The Business Corporations Act amounted to \$328,000 (1975 — \$306,000).

7. Anti-Inflation program

Effective October 14, 1975 the Federal Government passed the Anti-Inflation Act and subsequently issued Regulations which are presently scheduled to be in force until December 31, 1978. Under this legislation the company is subject to mandatory compliances with controls on prices, profit margins, employee compensation and shareholder dividends. The necessary base period calculations have been made and the company is in compliance with the Regulations.

FIVE YEAR FINANCIAL REVIEW (in thousands of dollars)

	1976	1975	1974	1973	1972
Operating results:					
Sales	\$17,291	\$15,563	\$13,280	\$10,986	\$10,867
Income (loss) before extraordinary items	675	796	401	213	(261)
Net Income (loss)	675	1,065	698	343	(261)
Financial position:					
Working capital	4,087	3,790	2,967	2,379	1,434
Total assets	11,001	8,781	8,197	7,579	7,062
Long term debt	1,187	1,375	1,562	1,414	1,499
Shareholders' equity	4,565	3,890	2,825	2,127	1,784
Capital expenditures	537	290	464	91	108
Income (loss) per share:					
— before extraordinary items	.25	.30	.15	.08	(.10)
— after extraordinary items	.25	.40	.26	.13	(.10)

Footnote:

Income per share figures have been calculated and adjusted on the basis of common shares now issued according to the arrangement effected in 1975 for changes in the capital structure.

Directors

W. D. Bean
G. D. Birks
N. H. Cruickshank
R. W. Meeke
J. W. Walker O.C.
J. D. Woods
John A. Young

Officers

J. D. Woods
Chairman of the Board
R. W. Meeke
President
John A. Young
Vice President and Secretary-Treasurer

Head Office

18 Vansittart Avenue, Woodstock, Ontario

Sales Executive Offices

Harvey Woods Division - 74 Victoria Street, Suite 625, Toronto, Ontario
Jockey Division - 74 Victoria Street, Suite 621, Toronto, Ontario

Transfer Agents

The Royal Trust Company

Auditors

Clarkson, Gordon & Co.

Bankers

The Toronto-Dominion Bank

Counsel

McCarthy & McCarthy

Operating Locations

Toronto: Kroy Unshrinkable Wools Limited
Thomson Research Associates Limited
Woodstock: Hosiery Division, Underwear Division

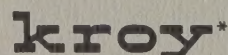
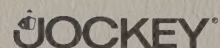
Branch Sales Offices

Vancouver — Edmonton — Winnipeg — Toronto — Montreal — Quebec

Products

Hosiery — Underwear — Lingerie — Sweaters — Sportswear

Registered Trade Marks

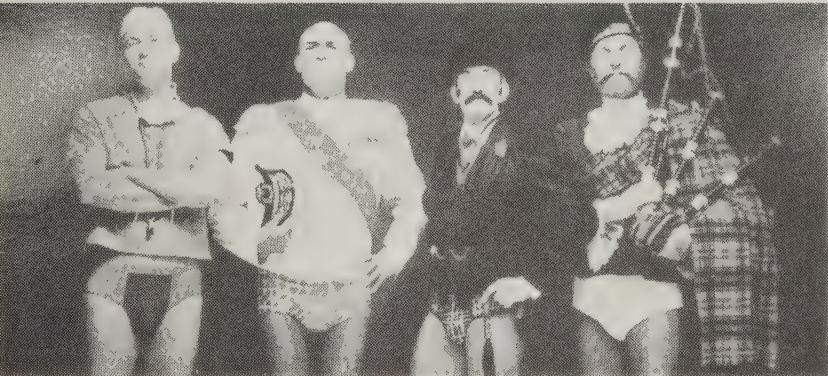
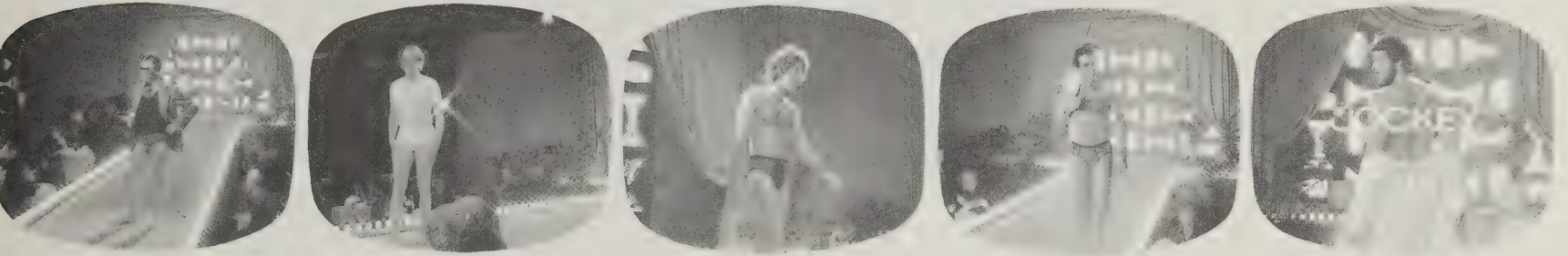


Advertising 1976-1977

Colourful posters featuring **Harvey Woods** hosiery and underwear, illustrated in last year's Annual Report, appeared in major markets throughout Canada in 1976. Two new posters have been created to carry on this effective advertising during 1977, consistent with our long range plan.

Jockey once again will employ television with the "Fashion Show" commercial, and the spring campaign will utilize Hockey Night in Canada and the exposure of the Stanley Cup Playoffs on the CBC national network.

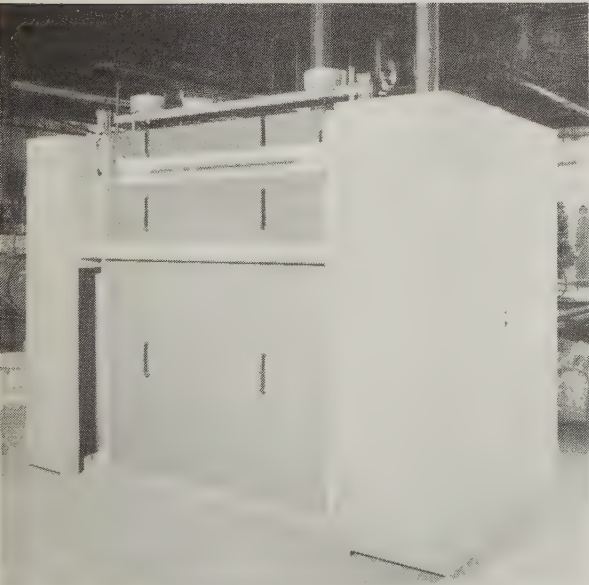
Advertising for both national brands, will continue to communicate the benefits, quality, and contemporary styling of our products to consumers; and, to our many retailers in Canada, the all important need to stock and merchandise **Harvey Woods** and **Jockey** underwear and hosiery.



Harvey Woods shows your true colours.



Harvey Woods puts variety in your socks life.



The 1976 six months' report referred to the successful results of the prototype **Kroy** machine for shrinkproofing wool. The construction of a production model has been completed and patents for its use have been applied for in 20 countries, pending licensing arrangements.

SIX MONTHS' REPORT 1976

TO THE SHAREHOLDERS:

The Unaudited Consolidated Statements of Income and Changes in the Company's Financial Position for the period ended July 3, 1976, are submitted herewith.

Sales were 19% higher than for the first six months of 1975 and unit shipments were up 13%. Income before income tax and extraordinary item on the increased sales level was however sharply lower, reflecting higher wage and material costs. Price increases have not matched these cost increases due to marketing factors. An application to increase prices is pending before the Anti-Inflation Board.

Until the company is able to at least match the cost increases being experienced in the price of its products, profit margins will continue to be less than satisfactory.

The successful results from the prototype of the new Kroy machine for shrink-proofing wool have led to the construction of a production model and patents for its use have been applied for in twenty countries. Performance evaluations are being confirmed in co-operation with the worldwide International Wool Secretariat.

On Behalf of the Board of Directors,

J. D. Woods, Chairman.

R. W. Meeke, President.

Toronto, Ontario
August 30, 1976

HARVEY WOODS LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

	Six Months (in thousands)	
	1976	1975
Sales	<u>\$8,194</u>	<u>\$6,876</u>
Expenses:		
Cost of sales	6,043	4,797
Marketing, general administration and shipping expenses	1,542	1,420
Depreciation	137	113
Interest - long term debt	63	76
- other	<u>93</u>	<u>134</u>
	<u>7,878</u>	<u>6,540</u>
Operating income	316	336
Minority interest in income of subsidiary company	<u>(2)</u>	<u>(1)</u>
Income before income taxes and extraordinary item	314	335
Income taxes	<u>132</u>	<u>144</u>
Income before extraordinary item	182	191
Extraordinary item:		
Reduction in income taxes resulting from application of prior years' losses	<u>5</u>	<u>142</u>
Net income for six months	<u>\$ 187</u>	<u>\$ 333</u>

NOTE (1) Income per share before extraordinary item
Income per share after extraordinary item

(2) Quarterly statements are necessarily based
the results for the full year are determined
have been restated accordingly.

**CONSOLIDATED STATEMENT OF
CHANGES IN FINANCIAL POSITION**

(Unaudited)

Six Months
(in thousands)

	<u>1976</u>	<u>1975</u>
Source of Working Capital		
Operations:		
Income before extraordinary item	\$ 182	\$ 191
Depreciation	137	113
Deferred income taxes	30	(2)
Extraordinary item	5	142
Minority interest in earnings of subsidiary	<u>2</u>	<u>1</u>
	356	445
Other:		
Sale of fixed assets	<u>21</u>	<u>5</u>
	<u>377</u>	<u>450</u>
Application of Working Capital		
Reduction in long term debt	96	94
Purchase of fixed assets	<u>358</u>	<u>167</u>
	<u>454</u>	<u>261</u>
Increase (decrease) in working capital	(77)	189
Working capital, beginning of year	<u>3,790</u>	<u>2,967</u>
Working capital, end of six months	<u><u>\$3,713</u></u>	<u><u>\$3,156</u></u>

<u>1976</u>	<u>1975</u>
\$.07	\$.07
\$.07	\$.12

on estimates and are subject to adjustment when
audited. Results for the first six months of 1975

AR01



**HARVEY
WOODS
LIMITED**
**SIX
MONTHS'
REPORT
1976**

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